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## **Iraq**

## **Grain and Feed Annual**

### **Iraq Grain and Feed Annual**

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**Report Highlights:**

Iraq is likely to experience lower winter grain production this year, as winter precipitation has been well below average across the rain dependent areas of northern Iraq. These areas historically produce one third of Iraq's winter wheat crop. Irrigated conditions are generally favorable, except across Kirkuk, where irrigation water shortages currently threaten the crop. The wheat area, including Kurdistan is estimated at 1.651 million hectares. 2011/12 wheat production is forecast at 2.019 MMT. Barley production is also expected to be below year earlier levels, as the planted area across northern rain dependent areas contracts and dryness reduces the yield outlook. Rice and corn areas are also expected to shrink as the summer irrigation water supply outlook is currently unfavorable.



## **Executive Summary:**

### **Commodities:**

Corn

Barley

Rice, Milled

Wheat

### **Production:**

#### **Wheat**

Wheat production across Iraq is expected to decline 15% from last year's bumper crop of 2.35 MMT to approximately 2.02 MMT this season. While the planted area is relatively unchanged from a year ago, dryland wheat area is down, while irrigated wheat area is essentially unchanged from final 2010/11 acreage estimates. Diyala province, in central Iraq, has seen a three-fold increase in wheat area this season due to increased availability of irrigation water during the fall of 2010, while irrigated area in Wasit, Kirkuk, and Salah ad Din provinces contracted. Kirkuk's wheat producers have been particularly hard hit, as irrigation supplies have been held hostage to festering issues between the Kurdish Regional Government, and the Government of Iraq (GoI). The lack of quality seeds and fertilizers continue to plague producers across Iraq and limit yield potential. The production estimate of 2.02 MMT is based upon conditions on April 1, adequate rainfall and irrigation supplies during April and early May will still be required for production to reach this level.

Given the expectation of a smaller wheat crop, feed wheat use is expected to decline only 50 TMT during 2011/12, as a smaller proportion of the domestic wheat crop is purchased by the Ministry of Trade for milling purposes. The Ministry of Trade (MoT) had similar plans last season, which were abandoned in the face of political pressure to purchase lower quality wheat to compensate farmers for the lower procurement price. It is likely the procurement price will be increased for this season's crop and that officials do not want a repeat of the problems associated with milling lower grade wheat and distributing lower quality flour.

Feed wheat continues to be a major ingredient in livestock and poultry rations and maintaining adequate supplies even in the face of a lower wheat crop is important to the livestock and poultry sectors. These sectors require additional feed at affordable prices to facilitate expansion and profitability. Imports of corn, as well as soybean meal are currently under discussion by the Ministry of Agriculture as a support mechanism for the poultry sector.

Lower domestic wheat production, the need to maintain adequate feed wheat supplies and Iraqi consumer's desire for the Public Distribution System (PDS) to deliver quality flour should lead to increased wheat imports during 2011/12. Wheat imports should increase to 3.7 MMT, allowing wheat ending stocks to change only marginally. 2011/12 ending stocks are forecast at 570 TMT, an increase of 20 TMT.

U.S. wheat exports to Iraq for the current marketing year are forecast to reach 1.6 MMT, the highest level since 2007/08. While a repeat of the world market factors that led to a surge in U.S. wheat exports to Iraq during 2010/11 is unlikely, the U.S. should continue to see Iraq purchase sizable quantities of U.S. wheat during 2011/12. U.S. wheat sales to Iraq are forecast at 1.0 MMT during the 2011/12 MY.

### ***Statistical Information***

#### **Iraq: Wheat 2011/12 (Production Projection)**

<b>Province</b>	<b>Planting Intentions</b>	<b>% Planted</b>	<b>Planting Actual</b>	<b>Yield MT/Dn.</b>	<b>Production (MT)</b>
Kurdistan					
Dahuk	750,000	93%	697,000	0.25	174,375
Arbil	900,000	84%	756,000	0.20	151,2000
Sulymaniyah	475,000	82%	389,000	0.20	77,900
<b>Total-IKR</b>	<b>2,125,000</b>	<b>87%</b>	<b>1,843,000</b>	<b>0.22</b>	<b>403,475</b>
<b>ROI*</b>					
Ninewa	1,639,285	50%	819,643	0.18	143,437
Kirkuk	735,189	76%	560,214	0.35	196,075
Salah ad Din	605,000	95%	574,750	0.33	186,794
Diyala	429,300	80%	343,400	0.58	197,478
Anbar	281,115	95%	267,059	0.33	86,794
Baghdad	245,625	100%	245,625	0.40	97,206
Wasit	751,000	84%	630,840	0.40	252,336
Babil	312,345	98%	308,098	0.34	104,992
Karbala	15,205	96%	14,597	0.38	5,474
Najaf	201,098	106%	213,164	0.45	95,924
Muthanna	69,950	63%	44,069	0.25	11,017
Qadisiyah	380,000	92%	349,600	0.35	122,360
Dhi Qar	277,600	53%	147,128	0.33	47,817
Maysan	219,100	90%	197,190	0.28	54,720
Basrah	70,400	70%	49,280	0.27	13,072
<b>Total- ROI</b>	<b>6,232,212</b>	<b>77%</b>	<b>4,762,696</b>	<b>0.33</b>	<b>1,615,495</b>

<b>Grand Total</b>	<b>8,357,212</b>	<b>80%</b>	<b>6,605,696</b>	<b>0.31</b>	<b>2,018,970</b>
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\*Rest of Iraq

### **Barley**

Barley production is expected to decline marginally based upon current crop conditions. A barley crop of 1.04 MMT is now forecast. However as approximately 60% of the barley crop is totally dependent upon winter and spring rainfall, this initial estimate may be need to be revised downward, as soil moisture conditions are becoming unfavorable and spring rains have been sparse, to date. Planted area is down, as poor moisture conditions led to lower plantings across northern areas. High domestic support prices for wheat, relative to barley are leading to a decline in barley planted area, particularly across Kurdistan. It is anticipated that GoI will again purchase barley this season, and resell it at a subsidized price to livestock producers. Sheep numbers across the north have begun a recovery, following drought induced liquidation during 2008, and 2009. A significant decline in the barley crop could seriously impact livestock production across northern Iraq. The Kurdish Regional Government (KRG) imported feed barley from Romania during 2008 in response to the failure of the barley crop that year. Notably, the KRG has a drought response plan in place if 2011 turns out to be a repeat of 2008 and 2009.

### **Corn**

Corn production will likely fall during 2011/12 as summer irrigation water supplies will likely be significantly below year earlier levels. 2010/11 corn production in Iraq was “officially” 133 TMT, a crop of 120 TMT is forecast for 2011/12. The corn crop is particularly dependent upon irrigation water from the Tigris river basin, where precipitation deficits have been most severe. Crop production will be affected by water allocations, which have not yet been announced.

Corn imports during 2011/12 have the potential to be a real wild card. High international prices could lead to a drop in imports by private sector market participants, particularly if feed wheat supplies are available and affordable. However, the Prime Minister’s office is supporting a National Poultry Initiative that would finance imports of both soybean meal and corn for resale at subsidized prices. This initiative has been in the formative stage for nearly a year, as an internal debate about which the MoA State Company will be responsible to import and administer the program, remains unresolved. This initiative has the potential to substantially impact corn imports, as the funding level is reportedly \$45 million dollars. However, until it is formally announced, the initiative remains a matter of speculation. Imports are forecast to remain unchanged at 100 TMT.

### **Rice**

Irrigation water availability will again limit Iraqi rice production. While winter rains within the Euphrates River basin have been greater than those across the Tigris River basin, they will not be enough to allow an increase in the summer rice planted area. Planted area is forecast to remain unchanged at 50,000 hectares. The flow of the Euphrates into Iraq is subject to an international agreement involving both Turkey and Syria, and it is unlikely that the release of water into Iraq will be

above minimum release flow requirements. Rice production in 2011 on a rough basis is forecast at 110 TMT, the same level achieved during 2010/11. Sales of rough rice to the Ministry of Trade during the 2010/11 season, at the official procurement price were much lower than anticipated. This suggests that the official lower procurement price, coupled with shortages and distribution problems associated with rice distributed through the PDS may have created more private sector demand by rice millers. The rice milling sector has substantial excess capacity and may well have outbid official prices in an attempt to utilize milling capacity and capture sales to the private sector.

#### **Trade:**

#### **Feed Supplies: (TMT)**

	2007/08	2008/09	2009/10	2010/11	2011/12
Feed Wheat					
Domestic	900	500	550	600	550
Imported		25	15		
Wheat Bran	950	910	920	950	1,100
Barley					
Domestic	900	600	435	900	900
Imported		50	35	35	35
Corn					
Domestic	290	200	150	133	120
Imported	25	80	80	100	100
Other Feed (Imported)					
Pellets		25	60	90	90
Soymeal	50	75	100	145	150
Other	2	3	5	5	5
Total:	3,117	2,468	2,350	2,958	3,050

Source: FAS, Post Estimates

#### *Long Term feed Demand*

Longer term feed demand has the potential for strong growth based upon expanded poultry production, aquaculture demand and red meat production. However if world commodities prices do not retreat in the face of improved new crop prospects, and if domestic grain production falters again due to drought , growth prospects may be postponed, or curtailed. The sheep sector is just beginning to recover from the devastating droughts of 2008 and 2009, and represents a growth sector for the use of more intensive feeding practices. The profitability of Iraqi broiler operations is tenuous at current feed prices, cheaper feed and improved import channels will be required to for continued growth of this sector.

Commodity	Attribute	Country	2007	2008	2009	2010	2011
Poultry, Meat, Broiler	Production (1000 MT)	Iraq	95	95	110	145	160
	Total Imports (1000 MT)	Iraq	176	211	275	330	380
	Total Supply (1000 MT)	Iraq	271	306	385	475	540

Source: FAS, 2010 and 2011-Post Estimates

Growth in the poultry sector was curtailed during the last half of 2010 by both high feed prices and disease problems. Poultry growers across central and southern areas reported very high losses during the fall production cycle. Hopefully disease problems and associated losses represent a short term set back as producers move up the learning curve associated with intensive operations. 2011 production is forecast to grow modestly based upon adequate feed supplies and lower protein meal prices during the third and fourth quarters of 2011. Imports of broiler meat should continue to increase due to its relative affordability compared to red meat prices, and government concerns regarding food price increases.

## **Policy:**

### **Policy**

#### **Public Distribution System Wheat and Rice Demand**

The government of Iraq continues to provide a monthly allotment of food items to nearly all Iraqi citizens. The number of food items provided has been reduced to just 5: wheat flour, rice, vegetable oil, sugar and baby milk formula (powder). The monthly allocation of 9kg of flour and 3kg of rice to 32 million Iraqis requires the MoT to purchase approximately 4.4 MMT of wheat and 1.2 MMT of rice (milled basis) annually. MoT purchases are from both domestic producers and the international market. Rice imports are approximately 90% of PDS requirements, while wheat imports are more variable depending on the size and quality of the domestic wheat crop. The surprisingly large 2010/11 Iraqi wheat crop of 2.35 MMT, coupled with larger than expected purchases by the MoT resulted in lower wheat imports during the current marketing year. A lower 2011/12 wheat crop and the intention to produce a higher quality flour this year, achieved by blending a higher percentage of imported wheat with domestic wheat will likely result in increased wheat imports during 2011/12. Rice imports may see a minor increase, as public pressure to maintain adequate PDS rice supplies is currently very high. Maintaining adequate PDS supplies is also an indirect way to control food price increases, as approximately one-third of PDS food commodities are sold by recipients, to traders for eventual resale into the market.

#### *Domestic Production Subsidies*

The Ministry of Trade did lower the wheat procurement price for grade 1 wheat for the 2010/11 crop by 24%, from 2009/2010's price of 850,000 ID/MT to 650,000 ID/MT (\$720/ \$550). However, the outcry from producers resulted in a much larger percentage of the most recent crop being purchased, including wheat unfit for milling purposes. Political unrest across the Middle East, including Iraq, will likely preclude adoption of additional market oriented policies and reforms in the near term. Market oriented actions taken last year, that resulted in lower procurement prices for wheat, rice, and barley will likely be reversed this year.

It is noteworthy that the current world wheat price basis delivered to an inland flour mill is approximately \$500/MT, as the world price and the domestic wheat price have converged. This has

important implications for Iraq as price convergence negates the cross border import of wheat from Iran, Turkey and Syria for sale to the Iraqi MoT, and allows the appropriate price differentials between different grades of wheat – removing distortions to the feed wheat market and livestock sector.

Public announcements by the MoA of their intent to provide subsidized feed, rebuild MoA owned poultry operations and increase supplies of subsidized inputs such as fertilizer indicate movement toward state capitalism and away from a more market oriented and price responsive agriculture.

## **Feed and Feed Demand**

### *Near Term Feed Outlook*

The overall feed outlook is expected to improve very modestly as increased wheat imports will lead to increased supplies of wheat bran. Domestic supplies of barley and corn will see little change from year earlier use. Imports of feed ingredients, barley, feed wheat, corn, pellets, and soybean meal are left unchanged. High international commodity prices may be dampening demand in the poultry sector, a situation that may show some improvement during the fourth quarter of 2011 if northern hemisphere crops do not face serious problems. Feed wheat imports may become an attractive option if regional production is large this year from Black Sea ports or India.

The National Poultry Initiative has the potential to add 100,000 MT to feed supplies, but until a tender is announced we will view it as speculative. The Iraqi Poultry Producers Association has spearheaded this initiative and made it clear that U.S. corn and soybean meal will be specified. As protein meal is in shorter supply relative to other feed ingredients, any purchase would likely be weighted toward soybean meal.